



2003 Annual Report

Aqua Pure Ventures Inc. (TSX: AQE)



ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Aqua-Pure Ventures Inc. will be held on May 28, 2004, at 2:00 p.m. at the Four Points Sheraton, 8220 Bow Ridge Crescent N. W., Calgary, Alberta.

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ANNUAL REPORT 2003

CHIEF EXECUTIVE OFFICER

MESSAGE TO SHAREHOLDERS

Most of the year 2003 was spent searching for the right market for our evaporator and waste water technology, expanding our relationships with companies that will help us penetrate new markets, and expanding our existing markets.

Major oil companies are utilizing our Evaporator technology, which includes EnCana, JACOS (Japan Canada Oil Sands) and BP Canada. Newalta Corporation is also a customer and a partner in the industrial wastewater market.

The Salsnes system has been successful in several tests and is presently operating in the Town of Enderby for primary sewage treatment. Additional permanent installations are scheduled for the New Year.

Initial representations of the Evaporator technology in the Texas oil and gas industry have resulted in a memorandum of understanding for development to be completed in 2004. We expect this opportunity to result in orders for several evaporator units over the next few years.

In 2003 positive progress was achieved and significant future sales opportunities were identified through the dedication and hard work of the staff and the board of directors.

On behalf of the Board,

A handwritten signature in black ink, appearing to be 'JH', followed by a horizontal line extending to the right.

Jacob Halldorson,
Chief Executive Officer.

AQUA-PURE'S TECHNOLOGY

COMPACT RISING FILM EVAPORATOR TECHNOLOGY

Aqua-Pure's compact rising film evaporator technology is a patented proprietary process able to process wastewater that is beyond the capabilities of conventional treatment processes, and is able to recover high quality distilled water from highly contaminated industrial wastewaters. Contaminants are concentrated from the wastewater into a disposal stream or further processed to provide a "zero liquid discharge" solution by reducing the entire liquid stream to solid form. The evaporator process can use electricity, steam, natural gas or waste heat as the energy source.

Our evaporator technology provides our customers with a compact, economic, reliable, and easily maintained facility. With these attributes, the Aqua-Pure evaporator process is the most cost effective evaporator on the market.

Aqua-Pure has 35 patents issued in 8 countries and 54 patent applications pending or processing in 25 countries for this technology including 7 patents issued and 28 applications pending or processing on technology jointly owned with EnCana.

Key Advantages

- Economic processing and lower capital costs offer a highly competitive alternative to traditional water treatment technologies.
- Evaporation has the advantage of complete removal of dissolved solids and the benefit of generating distilled water for customer re-use.
- Unique to Aqua-Pure's evaporator technology is the compact configuration which allows for modularization and portability where traditional designs do not.
- The physical configuration also results in easier access for maintenance, reducing operating costs and downtime.
- Automated controls allow for remote operation and minimal daily maintenance.

SALSNES FILTER

Exclusive Canadian distribution rights for this compact Norwegian technology allows Aqua-Pure to offer this self-contained, low capital and operating cost equipment for primary sewage treatment and solids removal from municipal and some industrial systems. The Salsnes filter removes a high percentage of suspended solids from primary sewage and industrial wastewater. Filter applications can also be sold in conjunction with other Aqua-Pure technologies.

Key Advantages

- Lower capital and operating costs
- More compact than traditional clarifiers and settling tanks
- Existing treatment plant capacity increased by 40 to 50 percent
- Highly efficient filtering technology
- Various designs and configurations to match customer's facilities and condition

EVAPORATOR UNITS IN OPERATION

EnCana Corp.

Foster Creek, Alberta

This evaporator is currently in use at the Foster Creek SAGD facility and uses waste heat as its energy source. EnCana uses this evaporator to generate boiler feed water from their oilfield produced water. Although the pilot plant is in the process of conversion our unit has been operating successfully since November 2000.

JACOS

Hangingstone, Alberta

This evaporator is operating as a waste heat unit, generating boiler feed water from boiler blowdown. It is incorporated as a second stage in an existing plant to augment distillate production and increase the concentration of the blowdown for feed to an existing crystallizer. The unit was commissioned in November 2003 and has run continuously since start up.

BP Amoco

Sarnia, Ontario

This evaporator is currently in use at BP Amoco's natural gas liquids storage and fractionation facility in Sarnia, Ontario. It utilizes Mechanical Vapour Recompression to concentrate salt brine to near saturation by removing distilled water from diluted salt brine. The saturated brine is used to displace natural gas liquids from the caverns and the distilled water is utilized as make up to the cooling towers. Final acceptance by the customer is dependant upon the unit operating successfully for one year from the final modifications. The warranty period is approximately 25 percent completed.

Newalta Corporation

Calgary, Alberta

An 11-usgpm (US gallons per minute) evaporator is currently operating at Newalta's wastewater facility in Calgary. The unit was commissioned in April of 2002 and processes a wide variety of industrial wastewater streams. Newalta is utilizing this unit to concentrate the waste and recover distilled water. The unit is also utilized to determine the treatability of wastewaters from various sources. Newalta is a partner that is dedicated to marketing this technology in the industrial wastewater industry in Canada.

KEY MARKETS

EVAPORATOR SYSTEMS

Oilfield Produced Water

Aqua-Pure is actively pursuing US markets for processing oilfield wastewater to generate fresh water for drilling and completions and to reduce wastewater disposal costs.

Heavy Oil Sector

The heavy oil reserves that exist in Western Canada present an important market for Aqua-Pure. With oil sands production expected to grow to 52 percent of Canada's total oil production it is expected Aqua-Pure's evaporator technology will find numerous opportunities.

The benefits to heavy oil producers using the Aqua-Pure evaporator technology include a reduction in surface water requirements, improvement in plant water reuse, and a reduction in oilfield produced wastewater disposal volumes.

Brine Concentrators

Natural Gas Liquids ("NGL") Fractionation Terminals located geographically in areas where there is significant rainfall have a problem with rainfall diluting the brine water that is stored in their storage ponds and used to displace the NGL gas when required for market. This presents a problem if the dilute brine is re-injected to displace the NGL as it dissolves the walls of the cavern over time, which jeopardizes the cavern's integrity. There are currently a number of NGL Fractionation Terminals within North America that experience this problem.

By utilizing the Aqua-Pure evaporator technology to concentrate the brine back to near saturation, NGL Fractionation Terminals benefit by eliminating the need to dispose of the excess dilute brine. By concentrating the dilute brine back to saturation for injection into the caverns, operators can maintain the integrity of the storage caverns.

Landfill Leachate

Disposal of excess leachate has long been a problem for landfill operators. Evaporators are a cost effective method of reducing the volumes of landfill leachate. The residual concentrated leachate can then be reduced to solids utilizing landfill gas as fuel in submerged flame crystalizers or alternative methods can be utilized to render the concentrate inert for disposal. Aqua-Pure's configuration makes these evaporators easy to operate and less costly to maintain in this difficult service. Aqua Pure currently has a number of proposals in place for this application.

Industrial Markets

Evaporators allow industrial users to recover distilled water from wastewater streams and minimize the amount of waste for disposal. The recovered water can be recycled for industrial use (cooling water, boiler feedwater, etc.). Aqua-Pure evaporators may be used in conjunction with conventional technology such as reverse osmosis, ion exchange, lime softeners, etc.

SALSNES FILTER

Municipalities

The Salsnes Filter is used in the primary sewage treatment phase and as an enhancement to secondary treatment. An important advantage of the Salsnes Filter is the ability to increase the capacity of existing sewage treatment plants by 40 – 50% with minimal plant modifications. The small size of the filter and its ability to treat large volumes of fluid allows existing facilities to operate longer and more effectively without the need for large infrastructure expenditures. Removing the solids through the filter process reduces the amount of waste activated sludge.

Salsnes filters have been installed in Enderby BC and in Ladysmith BC as a pilot project. Enderby is available as a functioning facility for promotional purposes as well as a standard for achievement.

Market development will continue in the Province of BC from our sub-office in Kelowna and our new marketing director in Alberta will service municipalities in Alberta and Saskatchewan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 12, 2004

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes therein for the year ended December 31, 2003.

OVERVIEW

Aqua-Pure's corporate strategy is to focus on marketing evaporators and Salsnes filters. We have reduced overheads, placed research and development on hold and expanded our marketing force. The strategy includes:

- Adding a marketing director
- Utilizing our current evaporator units as references
- Providing excellent support to existing customers
- Identifying new market opportunities
- Developing marketing alliances with reputable partners to expand our marketing efforts

Since Cam Gray's death in early 2003 the Company has been searching for a replacement. In the interim the Company reorganized the sales efforts by moving the President to Kelowna to pursue the BC market for the Salsnes system and the new marketing director who was hired in December to start January, 2004 will take over the Salsnes system marketing for Alberta and Saskatchewan.

There are essentially two segments of the market that will maintain our focus. The evaporator technology and its application for the treatment of wastewater and the Salsnes filter system and its application for primary sewage treatment has taken longer than expected to reach our goal of market penetration and acceptance. This year's activity has resulted in operating applications of both systems that will act as references for future sales.

Considerable time and effort was also spent in attempting to develop marketing alliances, which also identified additional market opportunities. A Company such as ours has a technology that is designed to meet the regulatory and environmental requirements for the use and preservation of fresh water.

SELECTED ANNUAL INFORMATION

	2003	2002	2001
Total Revenues	\$429,989	\$215,715	\$32,675
Income (loss) before discontinued operations	(660,411)	(1,623,976)	(5,040,276)
Net income (loss)	(660,411)	(1,623,976)	(8,342,773)
Net income (loss) per share	(0.03)	(0.09)	(0.45)
Total assets	4,722,979	4,657,799	7,321,555
Note payable	127,500	627,500	1,427,500

In 2001 the Company discontinued the operations of one of its subsidiaries and sold the assets to provide cash to continue operations and refocus efforts to the evaporator system and the Salsnes filter system. Efforts were also made to control costs wherever possible while going through the costly and time-consuming phases of introducing new technology to the market place.

RESULTS OF OPERATIONS

Revenues and Cost of Sales

Consolidated revenues for the year ended December 31, 2003 amounted to \$429,989 resulting from evaporator upgrade and service as well as the sale of a Salsnes system. While sales are not yet at a level anticipated and the progress has been slow, the revenue is virtually double that of the previous year's \$215,715. Enquiries and request for quotations on evaporator applications continued throughout the year as more information about our system has disseminated into the marketplace. Salsnes application enquiries have also escalated. Other revenue consists of testing related to the evaporator systems. Other revenue the previous year consisted of testing and processing revenue related to the operation of a pilot project.

The unit installed at BP Amoco is still in "work in progress" pending final acceptance. Aqua-Pure's technology is normally applied in situations where contaminants are removed from wastewater. BP's contract was an application to concentrate brine water for use in NGL salt cavern storage facilities. Since this was a first of its kind application Aqua-Pure also provided a longer than normal warranty and acceptance period.

The system, completed in early 2000, was subjected to several test runs as part of BP's acceptance testing. Testing of the changes were delayed until the holding ponds were full at the end of the first season, changes made subsequent were completed, further testing in 2002 also required additional changes but testing was again delayed until the end of the 2002 winter season. In 2003 additional changes and some equipment replacements were made. This is however, not untypical of a first of its kind application of new technology and has been a learning experience for the company. The Company has provided approximately \$101,000 for continuing warranty costs to acceptance.

Work in progress consists of the costs incurred to date for the BP Amoco project net of any warranty provisions and cost recoveries and remains as work in progress until final acceptance. The total funds received on the fixed price contract are recorded as deferred revenue until the final acceptance is received from BP Amoco. The company expects that the unit will perform through the warranty period and that acceptance can be obtained in 2006.

Production costs and cost of sales relate to the costs associated with evaporator and Salsnes systems, which amounted to \$324,652. Costs in 2002 of \$218,956 relate to evaporator and testing revenue and \$64,900 in write down of obsolete inventory. There were no Salsnes system sales in 2002.

Market Development

During the year the President returned to Kelowna to be closer to the BC market for Salsnes systems as most of the sales leads have originated in that province and the test installations at Ladysmith and Enderby required hands on supervision. The progress to date has been significant with respect to orders generated for delivery in 2004 and enquiries for installation of units at test sites. The addition of a new marketing director at the start of 2004 will also allow the company to cover market potential in Alberta and Saskatchewan. Market development costs have been separated from general and administrative costs with the increase in activity, the allocation of individuals to specific applications, and the addition of a marketing director under the guidance of the President. Total expenses for market development amounted to \$120,041 during the year as compared to \$87,606 in the previous year. The market development costs in 2002, which were included in general and administrative, have been reclassified to conform to this year's presentation. Increased travel related to evaporator projects and proposals, new brochures and presentation material accounted for all of the increase from the previous year.

RESULTS OF OPERATIONS (Cont'd)

Administrative

Administrative costs to December 31, 2003 amounted to \$468,339 compared to \$675,842 (after the reduction of market development costs reallocated in 2002). The current year's reduction of approximately \$207,500 resulted from the following: A decline in office and other related costs of \$48,000. A reduction in rental costs for the previous office space by subletting the committed space resulted in a savings of \$105,000. Wages and benefits were reduced by \$103,000. The total reductions of \$256,000 were offset by increases in costs for professional fees of \$38,000 and dissemination costs amounting to \$11,000.

Other Changes in Financial Statement Items

No major expenditures were incurred in the development of existing or new technologies during the year. The Company has concentrated on marketing and presentations for the evaporator technologies and the Salsnes filters. The Company reviews patents, rights, and technology applications on a continuous basis. Patents abandoned were written off during the fourth quarter and amounted to \$46,585. Patent renewals and applications amounted to \$61,536 compared to \$133,867 in 2002.

The Company's current inventory consists of parts for resale.

Capital assets include two Salsnes units utilized for on-site demonstrations and one additional unit and spare parts amounting to \$51,573 that is on test in Victoria, BC.

In 2002 obsolete equipment, and material used in the electrofloc process were written down to realizable value. The write down related to current assets in the amount of \$64,900 was reclassified to comparative amounts for operating costs to comply with the current year's presentation. Also in 2002 the company wrote down assets in the amount of \$705,371, of which \$520,000 related to an evaporator system, which had to be converted to a state that would allow it to be re-built and sold to a new customer, and \$185,371 that related to deferred development costs for electrofloc technology.

Interest expense in the current year amounted to \$17,752 of which \$16,427 related to notes payable compared to \$38,974 in 2002. The reduction in interest costs is directly related to the conversion of \$600,000 of notes payable into shares.

Amortization expense amounted to \$116,977 in the current year compared to \$174,325 in 2002.

Cash Flow and Net Loss

The loss for the year ended December 31, 2003 amounted to \$660,411 compared to \$1,623,976 for the year ended December 31, 2002. Sales have increased from the previous year but not significant enough to offset continuing costs related to the development of commercial markets and applications for the evaporator technology and the Salsnes filter. Progress has been slower than anticipated although efforts continue to keep expenditures at a minimum.

Aqua-Pure ended the year 2003 with a net loss of \$0.029 per share compared to \$0.089 per share for the year ended December 31, 2002.

SUMMARY OF QUARTERLY RESULTS

	2003				2002			
	March	June	Sept	Dec	March	June	Sept	Dec
Revenue	-	\$132,513	\$144,230	\$153,246	\$6,616	\$209,099	-	-
Net Loss	\$(198,815)	\$(174,365)	\$(156,757)	\$(130,474)	\$(272,905)	(228,739)	\$(762,652)	\$(359,680)
Net loss per share	(0.011)	(0.008)	(0.007)	(0.006)	(0.014)	(0.012)	(0.041)	(0.019)

FOURTH QUARTER RESULTS

The quarter ended in December 2003 represents the third consecutive quarter producing revenue and the quarter ended March 2004 also has earned revenue. Losses have continued their steady decline from a high of almost \$359,700 a year ago to \$130,500 in 2003; a rate of almost 10 % per quarter.

Revenue in the fourth quarter amounted to \$ 153,246, costs of product sales was \$119,366 and generated a gross profit of \$33,878. Expenses consisting of market development of \$14,581, amortization of \$44,377, interest on notes payable of \$1,360, and administrative expenses of \$97,333 amounted to \$156,757; a net loss of \$130,474 for the quarter. Year-end adjustments included patent abandonment adjustments of \$46,585 and a provision for future warranty of \$84,000.

Evaporator systems installed in past locations have typically been in the range of two to three million dollars and have lead times from eighteen months to anywhere up to two years. Based on the activity and the knowledge in the market place the potential customers with wastewater problems has escalated a great deal in this past year as more and more companies become aware of our technology. The Salsnes filter system is a product that will fill the gap between evaporator systems. Revenue can be generated from sales in a much shorter time. Revenue for the last three quarters of 2003 is a direct result of the market penetration of the Salsnes system and a strong indication that the sales efforts are producing results.

LIQUIDITY

At the end of the year the cash balance was \$145,063 compared to \$116,698 at December 31, 2002. The continued emphasis on cost control and increased sales efforts in the area of the Salsnes Filter has resulted in a decline in the working capital deficiency from \$984,466 in 2002 to \$387,724 in 2003. During the year the Company raised \$1,200,000 from private placements (\$600,000 of which was placed by the holder of the note payable) received additional advances of \$100,000 from a related party, used \$616,447 for operations, \$61,536 for additional patent applications, and \$51,573 for asset additions.

The private placement in 2003 provided the necessary capital to continue to fulfill the company's obligations in the near term during the year. The large capital expenditures for the development of the technology is behind us, however, there is a requirement for continued funding to operate. A major shareholder has made a commitment to provide the necessary capital to allow the continued operation of the Company

CAPITAL RESOURCES

Cash required for current operations is approximately \$50,000 per month. Project financing for evaporator systems and Salsnes systems are projected to be approximately \$500,000 at various times throughout the year. Commitments received from a major shareholder, Hallmark Resources Ltd. to finance all the future cash requirements will allow the company to continue to operate and fulfill its commitments. Projected sales of Salsnes systems will also provide much needed cash flow.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements. The Company does not have a financial interest in Hallmark resources Ltd. a company 20% owned by a director of Aqua-Pure Ventures Inc.

TRANSACTIONS WITH RELATED PARTIES

Details of the related party transactions are set out in Note 11 to the consolidated financial statements at December 31, 2003. Effective April 1, 2004 the marketing arrangement with an Alberta partnership that required \$1,000 per month has been terminated. Accrued interest in the amount of \$ 86,541 owing to a related party on notes payable is deferred.

FINANCIAL INSTRUMENTS

As outlined in Note 2 and Note 14 to the consolidated financial statements of the Company for the year ended December 31, 2003 the Company is not exposed to significant currency or credit risks arising from its financial instruments. Trade receivables, while having a high concentration of credit risk because of the few companies that make up the balances, are with customers in the oil and gas industry as well as municipalities. Debt owing under a note payable to a related party bears interest at 2% above prime bank lending rates. A one percent change in interest rates on floating debt amounts to approximately \$1,275 per annum.

SHARE CAPITAL AND TRADING DATA

During 2003 the Company issued 6,000,000 common shares at \$0.20 per share under a private placement and issued 200,000 stock options to certain employees at an exercise price of \$0.20 per share. In 2002 the Company issued 1,124,343 stock options to certain employees and directors, and 991,157 stock options issued in prior years expired on the departure of certain employees and directors.

Aqua-Pure shares trade on the TSX Venture Exchange under the symbol AQE. The trading range through the 2003 fiscal year was \$0.12 to \$0.57 with a volume of 1,026,100 shares.

OUTLOOK FOR 2004 AND SUBSEQUENT EVENTS

The Company continues to expand its market capabilities. The emphasis on reorganizing the approach to Salsnes applications by relocating a sales presence in Kelowna to service the Okanagan, Vancouver and Victoria areas, has shown significant signs of market awareness. On March 9, 2004 the Town of Lillooet, BC, awarded a contract for the supply of a Salsnes unit. The addition of a marketing director in Calgary will also increase our market presence in Alberta and Saskatchewan.

OUTLOOK FOR 2004 AND SUBSEQUENT EVENTS (Cont'd)

Part of the Company's evaporator system strategy applied in this past year was to develop contacts within related industries in an effort to identify segments and areas that could benefit from our technology and result in contracts.

Direct contact with customers has also resulted in a significant increase in requests for quotations. The need for evaporator technology to enable the reuse of process water is continuing to grow.

The Company announced on February 17, 2004 that an agreement in principle had been reached with a Texas corporation to develop a system that will process contaminated oilfield wastewater to provide fresh water for drilling and completion of oil and gas wells.

The Company continues to search out suitable partners with the necessary financial strength as well as the technical knowledge to jointly market our evaporator technology.

RISK

Aqua-Pure's future success is subject to the risks that any technology company faces when introducing new technology to the market place. It is costly and time consuming. There is a possibility of running out of money before achieving adequate sales to support ongoing operations. There is also the possibility of being purchased by a competitor before reaching sustainable size.

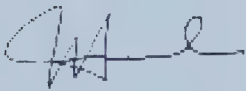
Although Aqua-Pure has filed for patent protection in a large number of countries and the patents issued have yet to be challenged, it is only after successful defence of a patent that its true value is established. There is also the chance that competitive technology will be introduced by someone else which could reduce the value of Aqua-Pure's technology.

While an economic downturn may put pressure on customers to limit spending and reduce costs, Aqua-Pure is positioned with products that help meet legislated environmental standards with cost-effective solutions. Therefore, we expect an economic downturn would have a minimal effect on the sale of Aqua-Pure equipment. In addition, the response in the US and Canada to lower interest rates as a way of stimulating the economy will reduce the cost of debt financing, which should help customers. Aqua-Pure is a minimal user of bank debt and therefore changes in the interest rate do not have a significant effect on our viability.

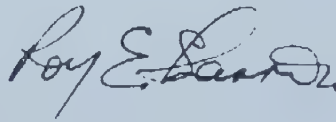
The US/Canadian exchange rate, which favours the US dollar, is beneficial to Aqua-Pure's marketing efforts into the US. It is a significant competitive advantage compared to US-based companies to have Canadian dollar costs and US dollar revenues.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

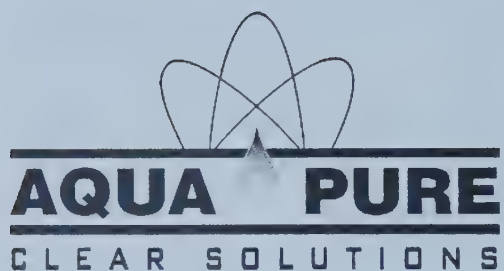
The accompanying consolidated financial statements of Aqua-Pure Ventures Inc. have been approved by the Board of Directors. All information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements. Management maintains systems of internal accounting control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. The Board of Directors is responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board includes non-management directors. BDO Dunwoody LLP is an independent firm of chartered accountants appointed as external auditors by the shareholders to audit the consolidated financial statements and their report follows.



Jacob T. Halldorson, P. Eng.
Chief Executive Officer



Roy E. Shannon, CA
Chief Financial Officer



Financial Statements and Notes

BDO Dunwoody LLP



BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Auditors' Report

To the Shareholders of Aqua-Pure Ventures Inc.

We have audited the consolidated balance sheets of Aqua-Pure Ventures Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

signed "BDO Dunwoody LLP"

Chartered Accountants

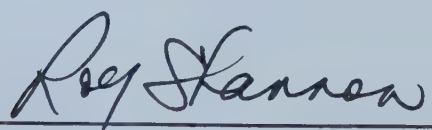
Calgary, Alberta
April 12, 2004

Aqua-Pure Ventures Inc. Consolidated Balance Sheets

As at December 31	2003	2002
Assets		
Current		
Cash	\$ 145,063	\$ 116,698
Accounts receivable	54,313	30,927
Inventory	2,850	-
Prepaid expenses	27,683	39,326
Work in progress (Note 4)	3,325,230	3,252,555
	<u>3,555,139</u>	<u>3,439,506</u>
Equipment (Note 5)	424,983	490,387
Other assets (Note 6)	742,857	727,906
	<u>\$ 4,722,979</u>	<u>\$ 4,657,799</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 293,963	\$ 275,072
Deferred revenue (Note 4)	3,521,400	3,521,400
Note payable (Note 7)	127,500	627,500
	<u>3,942,863</u>	<u>4,423,972</u>
Shareholders' equity		
Equity instruments (Note 8)	16,200,702	15,000,702
Contributed surplus (Note 8)	108,900	102,200
Deficit	(15,529,486)	(14,869,075)
	<u>780,116</u>	<u>233,827</u>
	<u>\$ 4,722,979</u>	<u>\$ 4,657,799</u>

On behalf of the Board:


 _____ Director
 Jacob T. Halldorson


 _____ Director
 Roy E. Shannon

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Aqua-Pure Ventures Inc.
Consolidated Statements of Operations and Deficit

Years ended December 31	2003	2002
Revenue		
Sales	\$ 424,767	172,215
Other revenue	5,222	43,500
	<u>429,989</u>	<u>215,715</u>
Operating expenses		
Production costs and cost of sales	324,652	283,856
Market development	120,041	87,606
Amortization	116,977	174,325
Interest on note payable	16,427	38,974
Administrative	468,339	675,842
	<u>1,046,436</u>	<u>1,260,603</u>
Loss before other items	(616,447)	(1,044,888)
Other items		
Gain on sale of investments	-	124,843
Gain on sale of assets	2,621	1,440
Write-down of investments and assets	(46,585)	(705,371)
	<u>(660,411)</u>	<u>(1,623,976)</u>
Net loss for the year	(660,411)	(1,623,976)
Deficit, beginning of year	(14,869,075)	(13,245,099)
Deficit, end of year	\$ (15,529,486)	\$ (14,869,075)
Weighted average number of common shares outstanding	22,556,710	18,556,710
Basic loss per common share ⁽¹⁾	\$ (0.029)	\$ (0.089)

(1) No dilutive earnings per share have not been disclosed as such would be anti-dilutive.

Aqua-Pure Ventures Inc.

Consolidated Statements of Cash Flows

Years ended December 31	2003	2002
Cash flows from operating activities		
Net loss for the year	\$ (660,411)	\$ (1,623,976)
Adjustment for non-cash items:		
Gain on sale of investments	-	(124,843)
Gain on sale of assets	(2,621)	(1,440)
Write-down of investments and assets	46,585	770,271
Amortization	116,977	174,325
Stock compensation	6,700	-
	<u>(492,770)</u>	<u>(805,663)</u>
Changes in non-cash working capital balances		
Accounts receivable	(23,385)	180,127
Prepaid expenses	11,643	(15,825)
Work in progress and inventory	(72,905)	(331,535)
Accounts payable and accrued liabilities	18,891	(242,630)
Deferred revenue	-	(6,616)
	<u>(558,526)</u>	<u>(1,222,142)</u>
Cash flows from investing activities		
Purchase of equipment	(51,573)	(10,230)
Proceeds from disposal of equipment	-	23,599
Proceeds from disposal of short-term investments	-	2,193,581
Patents	(61,536)	(133,867)
	<u>(113,109)</u>	<u>2,073,083</u>
Cash flows from financing activities		
Repayment of notes payable	-	(800,000)
Proceeds from note payable	100,000	-
Proceeds from issuance of share capital	600,000	-
	<u>700,000</u>	<u>(800,000)</u>
Increase in cash	28,365	50,941
Cash, beginning of year	116,698	65,757
Cash, end of year	\$ 145,063	\$ 116,698

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1. Continuing Operations

The Company's consolidated financial statements have been prepared on the "going concern" basis, which presumes that the company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The operations of the Company have been primarily funded through loans from a related party and a private placement completed in 2003. The continued operations of the Company are dependent on its ability to generate profitable operations in the future, develop a sufficient financing plan, receive continued financial support from related parties and shareholders, or complete sufficient public equity funding.

Financial alternatives are being discussed with financial intermediaries and directly with certain investors. The amounts due to related party under a note payable may be part of future financing that could involve their replacement by a specific term security or equity shares.

These financial statements do not reflect the adjustments, if any, or changes in presentation that may be necessary were the Company not able to continue on an on-going basis.

2. Significant Accounting Policies

Nature of Business

The Company is incorporated under the laws of Alberta and is engaged in the remediation and recycling technology of contaminated wastewaters.

Basis of Consolidation

The consolidated financial statements include the accounts of Aqua-Pure Ventures Inc. (the "Company") and its wholly-owned subsidiaries Aqua-Pure Ventures (USA) Inc., 3606261 Canada Inc., Calgary Envirowaste Transfer Ltd., and Applied Oxidation Technologies (2000) Inc. All intercompany transactions and balances have been eliminated on consolidation.

Aqua-Pure Ventures (USA) Inc. was incorporated on April 7, 1999 under the state of Nevada to facilitate future expansion into the USA. 3606261 Canada Inc. was incorporated on April 12, 1999 under the Canada Business Corporations Act to identify and acquire future business opportunities. Calgary Envirowaste Transfer Ltd. was purchased on September 1, 1999 to obtain a waste treatment permit and to further develop a facility for wastewater treatment. Applied Oxidation Technologies (2000) Inc., which provides a complimentary wastewater treatment process, was purchased on April 7, 2000. Both Aqua-Pure Ventures (USA) Inc. and 3606261 Canada Inc. were dormant during the periods.

Inventory

Inventory, which consists of Salsnes systems held for sale and parts for resale, is valued at lower of cost (first-in first-out basis) and realizable value.

Equipment

Equipment is recorded at cost. Amortization, based on the estimated useful life of the asset to their residual value, is as follows:

Distillation system	- 10 year straight line
Equipment	- 3, 5 and 10 year straight line

Amortization is prorated using the above rates in the period of acquisition.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Other Assets

License rights and patents and patents pending are recorded at cost. These assets, which are determined to have indefinite lives, are no longer amortized but are tested for impairment on a continual basis by comparison to their fair value. License rights or patents abandoned during the year, or of no continuing value, are written off. An impairment loss is recognized in the event that facts and circumstances indicate that the estimated carrying amount of an asset may not be recoverable and anticipated future cash flows from related operations is less than the carrying amount of the asset.

Product Warranties

Warranty expense is recognized at the time of sale based on estimated amounts of warranty costs to be incurred. These estimates are based on management's best estimates. Warranty expense is recorded as a component of cost of sales.

Future Income Taxes

Income taxes are determined using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences, attributable to temporary differences between the financial reporting basis and the tax basis of assets and liabilities and operating loss carry forwards and tax reductions based on enacted tax rates expected to apply in the periods in which the temporary differences are expected to be recovered or settled. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value is uncertain.

Stock Based Compensation

Effective January 1, 2003 the Company adopted the recommendations of the CICA Handbook Section 3870 "Stock Based Compensation and Other Stock Based Payments". This section required that direct awards of stock and liabilities based on the price of the common stock be measured at fair value at each reporting date, with the change in fair value to be reported in the statements of operations. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the Company's stock. Section 3870 was amended to require the expensing of all stock based compensation awards for fiscal years beginning after January 1, 2004. The Company has chosen in the final quarter of the year to adopt the recommendation prospectively, thereby recording the fair value of the stock options issued since January 1, 2003 in the statement of operations using the Black-Scholes option pricing model. Pro-forma disclosures for stock based compensation expense prior to January 1, 2003 have been disclosed in (Note 8).

Work in Progress and Revenue Recognition

Work in progress is recorded at cost and includes the laid down cost of material, direct labour cost applied from internal sources, and all subcontract costs applied directly to the project. Revenue is recognized when title to the delivered goods and the risks and rewards of ownership pass to the buyer. Revenue on agreements, which specify performance requirements, are recorded as deferred revenue upon receipt and recognized as income on a systematic basis over the period that the related products or services are delivered or obligations as defined in the agreement are met. No revenue is recognized on contracts on which specified customer acceptance criteria exist until customer acceptance is received.

Financial Instruments

The Company carries a number of financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying value, unless otherwise noted.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Use of Estimates

The preparation of financial statements, in accordance with generally accepted accounting principles, requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported.

The recoverability of unamortized technology rights, patent costs, and license fees are evaluated based on projected future revenues, net of associated costs. The projection of future revenues from the development of the wastewater processing system depends upon assumptions regarding market acceptance, competition from other products, changes in technology and other factors, which affect the Company's revenues and costs. Actual results could differ from those estimates.

The amounts recorded for work in progress and deferred revenue and stock compensation are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

Per share amounts

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

Measurement uncertainty

The amounts recorded for the expected costs to complete the requirements stipulated in the contract in progress (Note 4) in order to achieve product performance criteria are based on management's best estimates (Note 10(c)). By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. Change in Accounting Policy

Stock Based Compensation and other Stock Payments

In September 2003, the CICA issued an amendment to section 3870 "Stock based compensation and other stock based payments". The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that company's measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Company implemented this amended standard in the final quarter of 2003 in accordance with the early adoption provisions of the standard. Per the transitional provisions, early adoption requires that compensation expense be calculated and recorded in the income statement for options and warrants issued on or after January 1, 2003. Compensation expense of \$6,700 was recorded in these consolidated financial statements.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

4. Work in Progress and Deferred Revenue

The Company has incurred certain additional costs with respect to a sales contract for a customer in Ontario, which has been ready for final testing and acceptance. There have been no additional costs incurred since March 2003; however, management has accrued a provision of \$101,000 for the year ended December 31, 2003. Certain performance requirements need to be met under the terms of the contract. Revenue billed has been deferred and costs related to the contract recorded as work in progress until the Company meets the performance requirements specified in the contract (Note 10 (c)).

5. Equipment

	2003		2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Systems	\$ 978,394	\$ 676,072	\$ 926,821	\$ 570,895
Equipment	220,873	98,212	220,873	86,412
	\$ 1,199,267	\$ 774,284	\$ 1,147,694	\$ 657,307
Net book value		\$ 424,983		\$ 490,387

6. Other Assets

	2003		2002	
	Cost	Write down/ Impairment	Cost	Write down/ Impairment
License rights	\$ 62,500	\$ 43,999	\$ 62,500	\$ 37,062
Patents	1,149,270	424,914	1,087,734	385,266
	\$ 1,211,770	\$ 468,913	\$ 1,150,234	422,328
Net book value		\$ 742,857		\$ 727,906

7. Note Payable

Note payable - prime plus 2%, due on demand, supported by a personal property security agreement. This note is payable to a company 100% owned by a director and shareholder of Aqua-Pure Ventures Inc. and his immediate family. During 2003, 3,000,000 common shares at \$0.20 per share were issued as debt settlement.

	2003	2002
	\$ 127,500	\$627,500

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

8. Equity Instruments

Authorized

The authorized share capital of the Company consists of 100,000,000 common shares, without par value.

The issued share capital is as follows:

	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Balance beginning of year	18,556,710	\$ 14,000,702	18,556,710	\$14,000,702
Issued during year (a)	6,000,000	1,200,000	-	-
Balance end of period	24,556,710	15,200,702	18,556,710	\$14,000,702
Special warrants (b)	220,000	1,000,000	220,000	1,000,000
		\$ 16,200,702		\$15,000,702

Issued Shares (a)

On April 30, 2003, the Company completed a private placement issuing 6,000,000 common Shares at \$ 0.20 per share of which 3,000,000 were issued for cash and 3,000,000 common shares for settlement of debt (Note 7).

Warrants (b)

196,000 share purchase warrants were issued April 11, 2001 and expired unexercised April 11, 2003. The 220,000 first series special warrants issued in 2001 have no expiry date and upon request and submission to the company are convertible into 220,000 common shares at the then prevailing market price.

Stock options

There were 200,000 options issued March 31, 2003 at an exercise price of \$0.20 per share. These options vest over a three year period beginning in March 2004 and expire in March 2008. In 2002, 1,124,343 options were issued and fully vested at an exercise price of \$0.20, expiring August 2007.

On April 19, 2002, the Company received approval from the regulators to amend the original exercise prices on certain options issued and subsequent stock options, which ranged from \$0.30 to \$2.40 to amend the price to \$0.20. On June 19, 2002, the amendment received shareholder approval.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

8. Equity Instruments - continued

During 2002, 991,157 of the stock options issued in prior years expired upon the departure of certain employees and directors. All options issued are either unexercised or exercisable.

The options outstanding at December 31, 2003 are as detailed below. The weighted average exercise price of these options was \$0.20 per share.

Expiry Date	Number of options	Original Exercise Price	Amended Exercise Price
March 22, 2004	130,657	\$ 0.82	0.20
December 28, 2004	180,000	2.25	0.20
May 29, 2005	150,000	2.40	0.20
March 19, 2006	5,000	1.20	0.20
August 29, 2006	50,000	0.30	0.20
April 5, 2007	575,000	0.20	0.20
April 12, 2007	120,000	0.20	0.20
May 31, 2007	229,343	0.20	0.20
September 30, 2007	150,000	0.18	0.18
November 26, 2007	50,000	0.20	0.20
March 31, 2008	200,000	0.20	0.20
	<u>1,840,000</u>		

The options outstanding at December 31, 2002 are as detailed below. The weighted average exercise price of these options was \$0.20 per share.

Expiry Date	Number of options	Amended Exercise Price
March 22, 2004	130,657	\$0.20
December 28, 2004	180,000	0.20
May 29, 2005	150,000	0.20
March 19, 2006	5,000	0.20
August 29, 2006	50,000	0.20
April 5, 2007	575,000	0.20
April 12, 2007	120,000	0.20
May 31, 2007	229,343	0.20
September 30, 2007	150,000	0.18
November 26, 2007	50,000	0.20
	<u>1,640,000</u>	

During 2003, the Company adopted the fair value method of accounting for stock based employee compensation. The fair value of stock options is determined at the date of the grant and this amount is charged to earnings over the vesting period of the options. Compensation expense of \$6,700 was recorded for the year ended December 31, 2003 with the offsetting credit to contributed surplus.

Aqua-Pure Ventures Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

8. Equity Instruments - continued

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.30), risk-free interest rate (5.0%), and weighted average life of 5 years.

Had compensation expense been determined based on the fair value at the grant dates, the net income and earnings per share would have been reduced to the pro forma amounts indicated below for the period ended December 31, 2002.

Net Loss	2002
As reported	\$(1,623,976)
Pro Forma	\$(1,700,976)
 Loss Per Share:	
As reported	\$ (0.09)
Pro Forma	\$ (0.09)

The pro-forma amounts exclude the effect of stock options granted prior to January 1, 2002. The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.05), risk-free interest rate (5.0%), and weighted average life of 5 years.

Escrow Shares

Effective August 15, 2003 the terms of the Company's escrow agreement dated June 15, 1995 were amended in accordance with Policy 5.4 of the TSX Venture Exchange to replace the performance-based release provisions with the time-based release provisions. Pursuant to the policy change, the 5,095,628 common shares subject to the agreement were released as to 5% on November 13, 2003 and each of the 6, 12 and 18 month anniversaries of the first release, and as to 10% every six months thereafter. The final 10% will be released May 13, 2009. As at December 31, 2003, there were 4,840,847 shares held in escrow.

Warrants expired

At December 31, 2000, the Company had warrants outstanding to purchase 110,000 common shares. These warrants expired unexercised during 2001 and the balance attributable to these warrants of \$102,200 was classified as contributed surplus.

Aqua-Pure Ventures Inc.

Notes to Consolidated Financial Statements

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9. Income Taxes

Subject to confirmation by income tax authorities, the Company has non-capital losses of approximately \$6,009,965 (2002 - \$5,558,800), which may be applied against future taxable income expiring at various dates commencing 2004 through to the year 2010. In addition the Company has undeducted capital cost pools of approximately \$3,346,600 (2002 - \$3,284,600), undeducted eligible capital expenditures of \$32,500 (2002 - \$32,500) and undeducted share issue costs of \$113,094 (2002 - \$127,000). These tax pools are available at varying rates per year to shelter future taxable income. Realization of the related future tax asset is dependent on generating sufficient taxable income prior to expiration of the loss carry forward balances for tax purposes. Due to the Company's stage of development and operations, there is no assurance that the Company will be able to utilize these pools, as a result, no future tax asset has been recorded.

The effective tax rate of income tax varies from the statutory rate as follows:

	2003	2002
Combined tax rates	39%	40%
Expected income tax (recovery) at statutory rate	\$ (257,560)	\$ (649,590)
Change in rate	19,815	16,240
Write-down of investments and assets	14,040	282,150
Stock compensation	2,185	-
Other permanent differences	(12,841)	(26,544)
Change in valuation allowance	234,361	377,744
Actual income tax provision	\$ -	\$ -

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	2003	2002
Equipment	\$ 1,072,250	\$ 1,089,743
Other assets	(260,698)	(271,204)
Share issue costs	41,506	49,530
Non-capital loss carryforwards	2,205,657	1,956,285
Future income tax asset	3,058,715	2,824,354
Valuation allowance	(3,058,715)	(2,824,354)
Future income tax	\$ -	\$ -

Aqua-Pure Ventures Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

10. Commitments and Contingent Liabilities

- (a) The Company has committed to pay a royalty equal to 1% of pre-tax net profits of the Company on the evaporator technology to Haron Research Corp., the process developer, for as long as the Company utilizes the water purification technology acquired. Haron Research Corp. is controlled by a director of the Company.
- (b) The Company is committed to operating leases in respect of its premises and equipment. The estimated annual lease payments required in the next three years are as follows:

<u>Year</u>	<u>Amount</u>
2004	166,094
2005	139,460
2006	15,229

- (c) The Company is party to a customer contract pursuant to terms of which it delivered a brine processing unit. This unit is required to meet certain minimum performance criteria over an extended period of time. At December 31, 2003 the performance test has been partially completed. In the event that the delivered unit is unable to meet the specified criteria i.e. meet the performance test to a 100% satisfaction level, the Company may be liable for additional costs and/or other obligations (Note 4). The status of these performance obligations is not currently determinable or quantifiable. Additional amounts, if any, required to resolve these matters, will be recorded in the period of when they can be reasonably and reliably estimated.

11. Related Party Transactions

Except as disclosed elsewhere in these consolidated financial statements, the following related party transactions occurred:

- (a) The Company paid \$12,000 (2002 - \$13,000) for marketing fees to a partnership and its subsidiaries, of which a director of Aqua Pure Ventures Inc. is a retired partner. The balance owing at the end of the year was \$1,000 (2002 - \$2,000).
- (b) The Company accrued \$16,427 (2002 - \$ 38,974) in interest expenses owing to a company 20% owned by a director of the Company. The balance owing at the end of the year was \$86,541 (2002 - \$70,114).
- (c) The Company paid \$Nil (2002 - 10,670) for fees and services to other various related parties. The balance owing at the end of the year was \$ Nil (2002 - \$ Nil).
- (d) Included in the private placement were 1,027,500 common shares issued to insiders of the Company for \$0.20 per share. The Company also issued 147,500 common shares for \$0.20 per share to a company 20% owned by a director of the Company.
- (e) Included in accounts payable is \$107,944 due to a director and a company 20% owned by a director of the Company.
- (f) Included in professional fees is \$6,200 paid for services rendered to a director and the spouse of a director of the Company.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and approximates fair value.

Aqua-Pure Ventures Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

12. Statement of Cash Flows

	2003	2002
(a) Interest paid	\$ 10,000	\$ -
(b) During 2003, the Company settled \$600,000 of debt owing to a related party by the issue of 3,000,000 common shares at a price of \$0.20 per share (Note 7).		

13. Significant Customers

All of the Company's revenue reported during 2003 related to one evaporator system and one Salsnes system sold to two customers. In 2002, revenue reported related to one evaporator system sold to one customer.

14. Financial Instruments

As disclosed in Note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, foreign currency risk and credit risk.

(a) Interest rate risk

Floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The related disclosures are in Note 7 of these consolidated financial statements.

As at December 31, 2003 the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$1,275 (2002 - \$6,275) per annum.

(b) Credit risk

There exists a high concentration of credit risk as the Company's trade accounts receivable are comprised of a few companies. A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk.

15. Segmented Information

The Company had one reportable segment in Canada; therefore no further segmented information has been disclosed.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

"AQUA-PURE VENTURES INC. IS A PROVIDER OF INDUSTRIAL AND MUNICIPAL WASTEWATER TECHNOLOGY SOLUTIONS THAT ENSURE ENVIRONMENTAL SUSTAINABILITY THROUGH UTILIZATION OF PATENTED AND PROPRIETARY TECHNOLOGIES"

CORPORATE INFORMATION

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Jacob T. Halldorson, P.Eng.
Chief Executive Officer

Harold F. Lauman
President

Roy Shannon, C.A.
Chief Financial Officer

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